Teachers' Pension Plan

Report to Members 2012

Took a leave?

Learn how you may be able to improve your pension benefit.

TURN TO PAGE 3

Glimpse your future

See your pension for any year you want.

TURN TO PAGE 5

What is the Report to Members?

Your future pension from the Teachers' Pension Plan may be one of the most important and valuable assets you'll ever have. To help keep you informed about how the plan works and how you can make it work for you, this *2012 Report to Members* gives you a quick, easy-to-read update about the plan developments in 2012. There is also a message from the Teachers' Pension Board of Trustees about the work they're doing to keep your pension plan financially healthy and sustainable for the future. For more information any time, visit the plan's website at **tpp.pensionsbc.ca**.

For more information about what went on in 2012, read the *Annual Report*, available in September on the plan's website at **tpp.pensionsbc.ca**. The report is full of detailed financial information and much more—check out "Debbie's Story" to learn about how as a plan member you can take advantage of all the support and services offered by the plan.

Take five for your pension

Take five minutes to learn about your pension, and how decisions you make during your career can impact your future pension benefit.

1 Want to see your future? Log on

Log on to My Account on the BC Teachers' Pension Plan website. My Account offers you secure online access to your pension information. You can perform personalized pension estimates, view your *Member's Benefit Statements*, review your service and salary information, estimate the cost to purchase service for a period of time, and more. While you're there, sign up for a free "Your Pension, Your Future" seminar for even more helpful information about your pension.

If you've never used My Account before, just click 'Log On' on the top left-hand side of **tpp.pensionsbc.ca** to register. You will need your person ID number, which you can find on your *Member's Benefit Statement*.

2 Changed jobs? Make the most of your pension plan membership

If you've been a member of another pension plan in the past, you may be able to transfer your service to your BC Teachers' Pension Plan. This may increase your pension payment and may allow you to retire earlier.

Check out the PensionFacts *Transferring Service* on our website.

3 Took a leave from work? Consider purchasing service for a leave of absence

If you have ever taken a leave of absence—for example, for maternity leave—or worked less than half time, you may be eligible to obtain credit for that time, and this could increase your future pension benefit. Check to see how these new options may make it easier and more affordable to purchase service for a leave of absence:

- You can now purchase service for leaves lasting more than one year in more affordable annual portions.

- You can now purchase service for leaves even if you've changed employers, as long as you're still an active plan member when you apply and it's within five years of the end of the leave.
- If your employment ends, you now have 30 days to apply to purchase service for leaves that ended no more than five years ago.

For more information, see the PensionFacts on our website:

- *Purchasing leaves of absence*
- *Purchase of service and arrears for part-time members*

4 Know your pension plan? Learn a little or a lot on StraightTalk

You'll hear pensions discussed more these days than ever before. Some of the information is confusing, especially when it comes to finding the facts about the value, fairness, sustainability and cost-effectiveness of the plan. To find out the straight facts, visit the StraightTalk website at **tpp.straighttalk.pensionsbc.ca**. Learn the truth about your plan.

5 Thinking about retirement? Take advantage of our resources

We have valuable resources to help you understand your pension and choose your best pension option, including the free, "Thinking About Retiring" seminars held across the province.

To register for a seminar, or to read the *Choosing Your Best Pension Option* guide, please visit our website at **tpp.pensionsbc.ca**.

Apply by June 30

If you are considering purchasing service for a leave of absence, you can save money by submitting your application to your employer by June 30, 2013. This way, your purchase will be processed using the current pension contribution rates, before rates increase on July 1. For more information, see the Purchase of Service page under Resources on the plan website **tpp.pensionsbc.ca**.

Ready for a pension estimate? If you are within one year of your estimated retirement date, contact us for a pension estimate. We need to know:

- your full name, mailing address, work and home telephone numbers, person ID number (found on your *Member's Benefit Statement*) and date of birth,
- if you have a spouse, your spouse's name and date of birth (please state if you do not have a spouse),
- the name of your employer, and
- your estimated retirement date.

We also need clear photocopies of any proof-of-age documents for you and, if applicable, your spouse. Once your request is received, we will send you a retirement kit containing everything you need to apply for your pension.

Your Pension Online

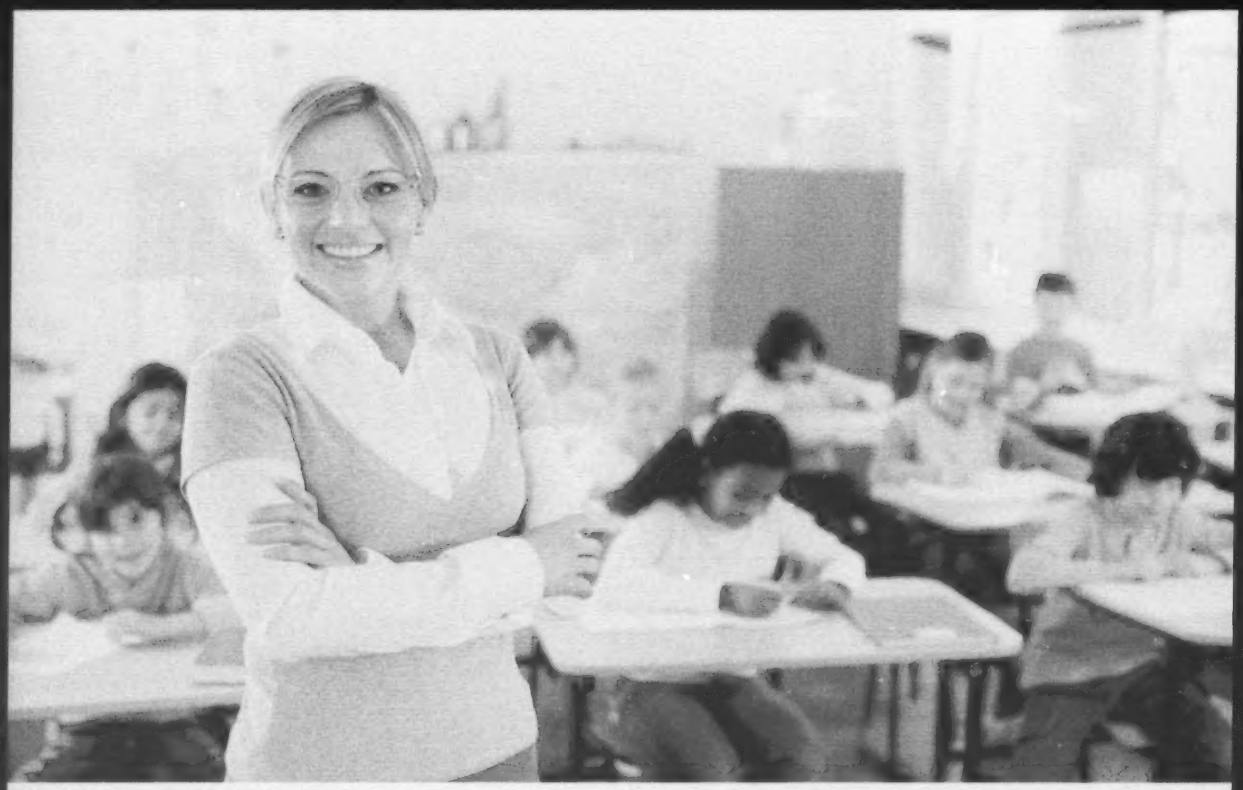
Fast. Convenient. Secure.

My Account is your online gateway to your pension contribution and service history, a personalized tool to estimate your future pension amount and other important information.

Visit My Account: **tpp.pensionsbc.ca**

New to My Account?

Registration is easy. Follow the simple instructions and start using the personalized pension estimator today! You will need your person ID number, which you can find on your *Member's Benefit Statement*.



The financial health of your pension plan

The Teachers' Pension Plan holds a diversified portfolio of investments designed to prudently manage risk and focus on long-term investment performance.

Every three years, an independent actuary assesses the financial health of the plan's basic account and determines whether contribution rates are adequate to fund the plan. The 2011 actuarial report for the Teachers' Pension Plan showed that, as at December 31, 2011, the plan had an unfunded liability for basic pension benefits of $855 million. To pay off the unfunded liability, plan member and employer contribution rates will both increase by 1.3 per cent of salary on July 1, 2013. The contribution rate increase will restore the plan to full funding.

The following tables and charts summarize the plan's investments, investment performance and financial statement highlights. Note that this information is unaudited. The annual report, which will be available on the plan's website in September, will contain the plan's audited financial information.

Financial statement highlights

year ended December 31

	2012	2011
	$ Millions	
	(unaudited)	
Net assets—beginning of year*	**$16,899**	$16,649
Investment income	**1,778**	532
Contributions	**680**	687
Benefit payments	**(969)**	(934)
Investment and administration costs**	**(40)**	(35)
Net assets—end of year*	**$18,348**	$16,899

* The net assets available for benefits reflect the market value of investments net of accounts receivable, accounts payable and prepaid expenses. For more details, please see the Statement of Financial Position in the financial statements of the *2012 Annual Report*, to be published fall 2013.

** External investment management costs of $13.1 million incurred in the investment pooled funds by wholly owned corporations reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets. (Prior years' costs: 2011—$8.6 million; 2010—$7.5 million; 2009—$6.6 millon; 2008—$9.1 million)

WHY IT MATTERS: This table shows how much money the plan has available for providing pension benefits and compares that number to the previous year's amount. Year-to-year summaries only provide a snapshot in time; our goal is to grow the plan assets over the long term and achieve consistent, reliable performance by following sound investment principles.

Investment performance

	Performance benchmarks* 2012	Actual December 31 2012	2011
		(unaudited)	
Market value ($ billions)		**$18.3**	$16.9
Market value rates of return			
Total portfolio			
Annual	**8.2%**	**10.4%**	3.1%
Five-year annualized	**4.0%**	**3.9%**	2.6%

* Benchmarks are standards to compare against investment returns

WHY IT MATTERS: This table presents the financial returns the plan achieved in 2012 (and the annualized five-year period) compared with benchmarks and prior-year returns. The board chooses benchmarks from independent sources to measure performance.

Investment asset mix and performance

year ended December 31, 2012

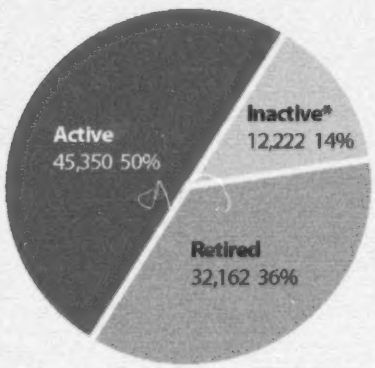
	Approved range (%)	Policy asset mix market value (%)	Actual asset mix market value (%)	Rate of return (%)	Performance benchmark* (%)
Short-term	0–10	2	1.4	1.1	1.0
Mortgages	0–11	6	4.2	4.2	2.9
Nominal bonds	10–25	17	12.9	3.7	3.6
Real return bonds	0–10	5	4.4	2.5	2.9
Fixed income subtotal	**20–40**	**30**	**22.9**	**3.4**	**3.2**
Canadian equities	7–22	15	15.9	7.5	6.9
Global equities	12–32	23	26.6	14.9	13.6
Emerging markets equities	0–10	5	5.6	17.9	15.6
Public equity subtotal	**30–55**	**43**	**48.1**	**12.7**	**11.6**
Real estate	10–20	15	15.7	15.4	4.8
Real estate subtotal	**10–20**	**15**	**15.7**	**15.4**	**4.8**
Private placements	**0–12**	**6**	**5.6**	**13.9****	**15.5****
Strategic investments and infrastructure	**0–12**	**6**	**7.7**	**7.6****	**8.0****
Total asset mix			**100.0**	**10.4**	**8.2**

* Benchmarks are standards to compare against investment returns

** Preliminary numbers. For final results, please see the *2012 Annual Report*, to be published fall 2013.

WHY IT MATTERS: This table shows what the plan invests in and how well the investment categories performed during the year compared with benchmark returns. It's a gauge of how well the plan's money is being managed by our fund manager, British Columbia Investment Management Corporation.

Membership Profile as at December 31, 2012



WHY IT MATTERS: This shows how many members are in the plan and each group's percentage of the plan as a whole. The percentage of retirees is growing faster than the number of active members contributing to the plan. The plan actuary takes this growing number of retirees into account when determining the plan's ability to pay future pension benefits.

* Members no longer employed, but with money in the plan.

Investment and administration costs*

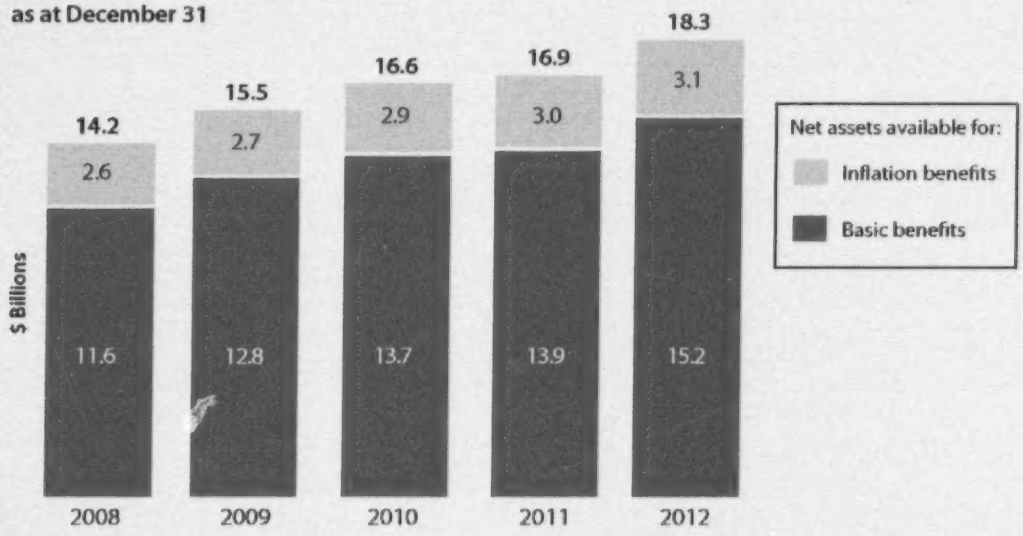
	2012	2011	2010	2009	2008
Investment management*	**0.23%**	0.21%	0.16%	0.15%	0.20%
Benefits administration	**0.06%**	0.05%	0.06%	0.06%	0.06%

* External investment management costs of $13.1 million incurred in the investment pooled funds by wholly owned corporations reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets. (Prior years' costs: 2011—$8.6 million; 2010—$7.5 million; 2009—$6.6 millon; 2008—$9.1 million)

WHY IT MATTERS: This shows the cost of administering the plan and managing the plan's assets as a percentage of net assets for each of the last five years. The Teachers' Pension Plan compares very favourably to other retirement funding mechanisms.

Net assets available for benefits*

as at December 31



* The net assets available for benefits reflect the market value of investments net of accounts receivable, accounts payable and prepaid expenses. For more details, please see the Statement of Financial Position in the financial statements of the *2012 Annual Report*, to be published fall 2013.

WHY IT MATTERS: This shows the total amount of funds available for basic pension benefits and inflation adjustments. Over the past two years, the plan has taken steps to improve the sustainability of funding for cost-of-living adjustments for those already retired and those who will retire in the future.

Plan updates

Change to retired members' eligibility for cost-of-living adjustments

If you retire prior to age 56, you will receive your first cost-of-living adjustment on the January 1 following your 56th birthday.

Amendment 19 to the Teachers' Pension Plan Rules—effective January 1, 2012

Effective January 1, 2012, the granting of cost-of-living adjustments applies only to retired members of the Teachers' Pension Plan who have reached age 56. The amendment applies to pensions eligible for cost-of-living adjustments on or after January 1, 2012.

The amendment is part of a series of measures the board has taken to strengthen the plan's ability to provide cost-of-living adjustments in the future.

Introduction of a voluntary unsubsidized extended health care plan

When you retire, you and your dependent(s) can enrol in the Teachers' Pension Plan voluntary extended health care plan through Pacific Blue Cross, but you are responsible for paying full premiums. Premiums for group plans are typically more affordable than benefit packages individuals could buy on their own.

Amendment 3 to the Teachers' Pension Plan Post-Retirement Group Benefits Rules—effective January 1, 2012

To further strengthen the plan's ability to provide cost-of-living adjustments in the future, the portion of employer contributions previously used to subsidize group extended health benefits is being redirected to support cost-of-living adjustments.

As a result, the plan's Post-Retirement Group Benefits Rules were amended to introduce a voluntary unsubsidized extended health care plan for retired members effective January 1, 2012. Retired members continue to have access to group extended health care rates through the new voluntary plan, but they are responsible for paying full premiums.

Contribution rate increase effective July 1, 2013

Effective July 1, 2013, both member and employer contribution rates will increase by 1.3 per cent of salary. This decision follows an independent actuarial valuation of the Teacher's Pension Plan as at December 31, 2011.

The Teachers' Pension Board of Trustees approved this contribution increase after receiving the most recent valuation, which showed the plan's basic account had actuarial assets of $19.8 billion and actuarial liabilities of $20.7 billion, resulting in an unfunded liability of $855 million. This means the plan is 96 per cent funded—a fundamental sign of the plan's long-term health and sustainability. Trustees are required under the Joint Trust Agreement, one of the plan's key governance documents, to increase contribution rates in the event of an unfunded liability. An unfunded liability occurs when the money projected to be available (assets) for future pensions is less than the projected costs (liabilities) of paying for those pensions. The contribution rate increase will restore the plan to full funding.

The Teachers' plan is a pre-funded plan, which means each generation pays for its own benefits. Approximately 80 per cent of the benefits paid are derived from investment returns, with the remaining 20 per cent made up of employer and employee contributions. Our board is focused on ensuring the long-term health of the pension fund.

Contribution rates as a percentage of salary

		Member		Employer	
		Old rates	Rates effective July 1, 2013	Old rates	Rates effective July 1, 2013
Below YMPE*	Basic**	8.20%	9.50%	12.20%	13.50%
	IAA***	3.00%	3.00%	1.13%	1.13%
	Total	**11.20%**	**12.50%**	**13.33%**	**14.63%**
Above YMPE*	Basic**	9.70%	11.0%	13.70%	15.0%
	IAA***	3.00%	3.00%	1.13%	1.13%
	Total	**12.70%**	**14.00%**	**14.83%**	**16.13%**

* The YMPE is the Year's Maximum Pensionable Earnings for the Canada Pension Plan. The YMPE for 2012 is $50,100.

** Members and employers both contribute to the Basic Account to provide for the members' basic lifetime pension payments. These are the rates that will increase.

*** Members and employers also contribute to the Inflation Adjustment Account to provide cost-of-living adjustments, which are not guaranteed. These rates will not change.

Looking ahead

The following important changes come into effect in 2013.

Divorced or separated: changes in pension division

What is the change?

The *Family Law Act*, new legislation that came into effect on March 18, 2013, brought in two key changes that may affect your pension:

- Under the new law, common-law spouses are treated the same as married spouses for the purposes of dividing a pension. This means common-law spouses now have the same rights and responsibilities as married spouses with respect to pension benefit entitlements.
- Your former spouse can receive their share of your pension when you become eligible to retire. Your former spouse can receive either a lump sum transfer or a pension paid to them directly by the plan.

Where can I get more information?

For more information about these changes, read the PensionFacts *How a separation or divorce affects your pension*, available under Publications on the plan website at **tpp.pensionsbc.ca**.

Your Pension Online

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New to My Account?
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Trustees' message

The future looks positive for our plan

The Teachers' Pension Board of Trustees (TPBT) is proud to serve the membership of the Teachers' Pension Plan. We feel positive about the plan's financial health and the security it offers to our members and their families. We believe this because we take a long-term approach to investing and hold a diversified portfolio that includes a broad mix of investments, which we review regularly. In addition, the plan's size and long-term investment strategy enable it to take advantage of global investment opportunities, helping the plan remain financially strong.

As a result, despite continued global economic uncertainty over the last year, we are pleased to report the Teachers' Pension Plan's investments achieved a 10.4 per cent return in 2012.

A significant and growing challenge, however, has been the ongoing demographic shift within the plan. Over the last 12 years the average member's life expectancy has improved by about a year and a half while the number of active members has declined, so benefits are paid out for longer periods from a smaller pool of contributions. While we can't control demographic factors, we proactively take steps to ensure the plan remains well governed and sustainable now and into the future.

One of these steps is to undertake an actuarial valuation, an assessment of the plan's financial health, every three years. The most recent valuation, for the period ending December 31, 2011, showed the plan had an unfunded liability of $855 million. To pay off this unfunded liability, you will recall we announced a contribution increase of 1.3 per cent for both plan employers and members, effective July 1, 2013.

Three main factors led to the unfunded liability and resulting contribution increase:

- member average life expectancy improved by a year and a half to approximately 88 years (which means, as a Teachers' Pension Plan member, you have a better-than-BC average life expectancy and benefits are paid out for a longer time);

- the challenging global economic climate resulted in lower-than-expected investment returns; and
- the number of active members in the plan did not increase as expected and in fact declined by three per cent, meaning the plan received less in contributions than expected.

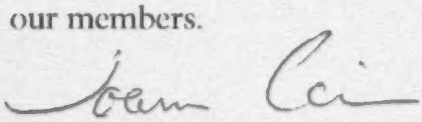
We understand contribution increases have a considerable impact on you. It is important to keep in mind your and your employer's contributions are paying toward your retirement, and the dollars you contribute go a long way. The plan's investment income finances an impressive 80 per cent of the benefits paid to members.

It's also encouraging to know in 2012 the average BC teacher's pension, based on the average career length, was $29,641 (this does not include Old Age Security, the Canada Pension Plan or your own personal investments). This is the benefit of saving for a long time; you receive a secure and guaranteed income in retirement.

Your pension plan is extremely valuable; it is financially strong, and you can count on it for life.

We hope you feel proud of being a member of the plan. We encourage you to take an active role and educate yourself about your pension and the options available to you to increase your service—options such as purchasing service for leaves of absence. For more visit the plan's website at **tpp.pensionsbc.ca**.

In the coming year we will continue to work hard to maintain a healthy and sustainable asset base, and manage the plan in the best interest of our members.



Joann Cain, Chair
Teachers' Pension Board of Trustees

How the Teachers' Pension Plan is governed

The Teachers' Pension Plan is governed through a joint trust agreement between the plan partners: the provincial government and the BC Teachers' Federation. You can read the joint trust agreement by visiting the Board Publications section of the plan's website, **tpp.pensionsbc.ca**.

Joint trusteeship is the shared management of the pension plan by appointees of the plan partners. The partners are responsible for appointing the board of trustees.

The Teachers' Pension Board of Trustees is responsible for managing the pension plan. However, the joint trust agreement sets out conditions for the board to follow in implementing certain changes. The board may change the plan rules if they are directed to do so by the plan partners and certain conditions are met. The board can also amend the pension plan rules as long as any related costs can be funded by pension fund surpluses or are cost-neutral to the plan.

Teachers' Pension Board of Trustees as of December 31, 2012

Joann Cain, Chair
Linda Watson, Vice Chair
Joan Axford
Reg Bawa
Chung Yan Ip
Wayne Jefferson
Harold Krische
Dale Lauber
Ken Tannar
Brad Underwood

Teachers' Pension Plan

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Teachers' Pension Board of Trustees Mission Statement

To fulfill the trust the Partners have placed on us by efficiently meeting or exceeding the pension promise made to plan members.

Disclaimer

The information in this report is based on the legislation and Teachers' Pension Plan rules except where otherwise noted.

In the event of any variation between the information in this report and the provisions of the statutes, regulations and plan rules which govern any benefits available under the Teachers' Pension Plan, the latter will prevail.

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